Canadian Investment Fund, Ltd.

Canada's Original Mutual Fund

42nd Annual Report 1974

Canadian Investment Fund, Ltd.

Annual Report for the fiscal year ended December 31, 1974

Directors

G. Arnold Hart, M.B.E., *Chairman*
David W. Barr
Henry Borden, O.C., C.M.G., Q.C.
Hugh Bullock, K.B.E.
Alan Chippindale
G. Blair Gordon
Howard J. Lang
Lucien G. Rolland
Ian D. Sinclair

Officers

Hugh Bullock, *President*
A. Blaikie Purvis, *Vice-President and Secretary*
Carl J.S. MacCallum, *Vice-President*
Thomas C. Camp, *Vice-President*
Rolland A. Peloquin, *Treasurer*
Pauline Butkus, *Assistant-Secretary*

Custodian

The Royal Trust Company
Montreal

Transfer Agents

The Royal Trust Company
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal, Charlottetown
The Trust Company of New Jersey
Jersey City

Auditors

Price Waterhouse & Co.
Montreal

Supervised by:
Calvin Bullock, Ltd.
Established 1894

Executive Offices

630 Dorchester Blvd. West,
Montreal, Canada H3B 1X1

Charter member of CMFA The Canadian Mutual Funds Association

To the Shareholders:

This report marks forty-two years of operation for Canada's original mutual fund. Dividends, which have been paid quarterly since the fund was established, totalled 28¢ per share including capital gains, an all time high and 33% more than last year.

During the year your managers accelerated their policy of selling most cyclical stocks which had performed relatively well and reinvesting in stocks of companies with more stable earnings and with high dividend yields. This did not preclude purchase of some situations considered to be primarily attractive for capital gains. In all cases, stocks were bought with an eye to strength of corporate balance sheets. It is interesting to note that the dividends paid in 1974 created an after tax yield equal to or better than many quality fixed income securities at December 31 prices. In other words, one may achieve potential for capital gain at little or no penalty.

We do not subscribe to the theory that total economic collapse is imminent. Certainly the quantification of OPEC oil price increases when added to existing inflationary conditions is cause for great concern. But it seems that many people are equating national financial conditions with personal ones. Major nations simply do not buckle and stop operating due to threats and economic warfare. They will go on because the economic health of the whole world requires the health or at least survival of the component parts. The oil payments problem is a man-made one, and man-made solutions will be and are being found.

Likewise the Canadian economic problems of late are in the main man-made. Our resources are quantifiable though by no means inexhaustible. The struggle over political power and relative benefits can be tolerated by the people up to a point. When income and employment come to be affected, that point is reached. Perhaps a better understanding between levels of government has already come about.

Certain changes in the November budget were welcome. Of these the provision for the first $1000 dividend income to be tax free in 1975 and beyond is particularly of interest to CIF shareholders who pay Canadian income tax. Other requested changes were not made. For instance no more than 25% of the income of CIF or any investment corporation is permitted to be from interest sources, with at least 75% from dividends. If this rule were broken the fund would face certain penalties. This government policy placed a limitation on the permissible size of interest bearing cash deposits of your fund during the past year. It is hoped this will be reviewed again by the government soon.

We enter 1975 with CIF protected by a good dividend yield. We look forward to improved stock markets for 1975 as the indices anticipate better economic conditions a year hence.

By order of the Board of Directors

Hugh Bullock

President

February 24, 1975

Directors

The Directors of your Company are elected by and represent the shareholders. They receive weekly reports showing portfolio changes, sales and redemptions of shares and other pertinent operating figures. They review portfolio transactions at regular quarterly meetings and also make important contributions to the establishment of investment policy and to portfolio supervision by supplying significant information and opinion to the discussions of world and domestic developments which influence the trend of economic and financial affairs.

The individual Directors are also constantly available to the Investment Supervisor to hold discussions and provide opinions concerning their particular fields of business endeavour.

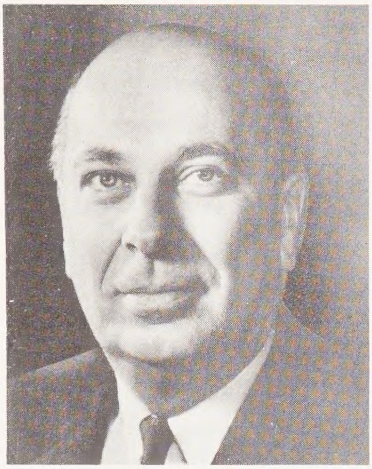
Mr. William S. Kirkpatrick tendered his resignation from the Board of Directors effective at the end of 1974. At a meeting on January 14, 1975 the Board accepted the resignation with deep regret and by resolution, expressed their appreciation for the valuable service and wise counsel he has rendered to the Company for the past nine years.

It is a pleasure to be able to advise shareholders that Mr. Howard J. Lang, Chairman and Chief Executive Officer of Canron Limited, was elected a Director of the Company, filling the Board vacancy.

Investment Supervision

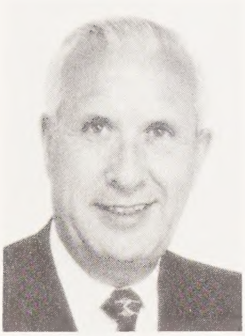
Your Company's investments are continuously supervised by Calvin Bullock, Ltd., founded in 1894, the oldest organization in North America specializing in the management of investment companies.

The Board of Directors



Chairman
G. Arnold Hart, M.B.E.,
Chairman, Bank of Montreal

President
Hugh Bullock, K.B.E.,
Chairman and Chief Executive Officer, Calvin Bullock, Ltd., New York



David W. Barr,
President and Director, Moore Corporation Limited

Henry Borden, O.C., C.M.G., Q.C.,
Director, Massey-Ferguson Limited

Alan Chippindale,
Former President, Calvin Bullock, Ltd., Montreal. Founding past President of CMFA

G. Blair Gordon,
Director, The Royal Trust Company

Howard J. Lang,
Chairman and Chief Executive Officer, Canron Limited

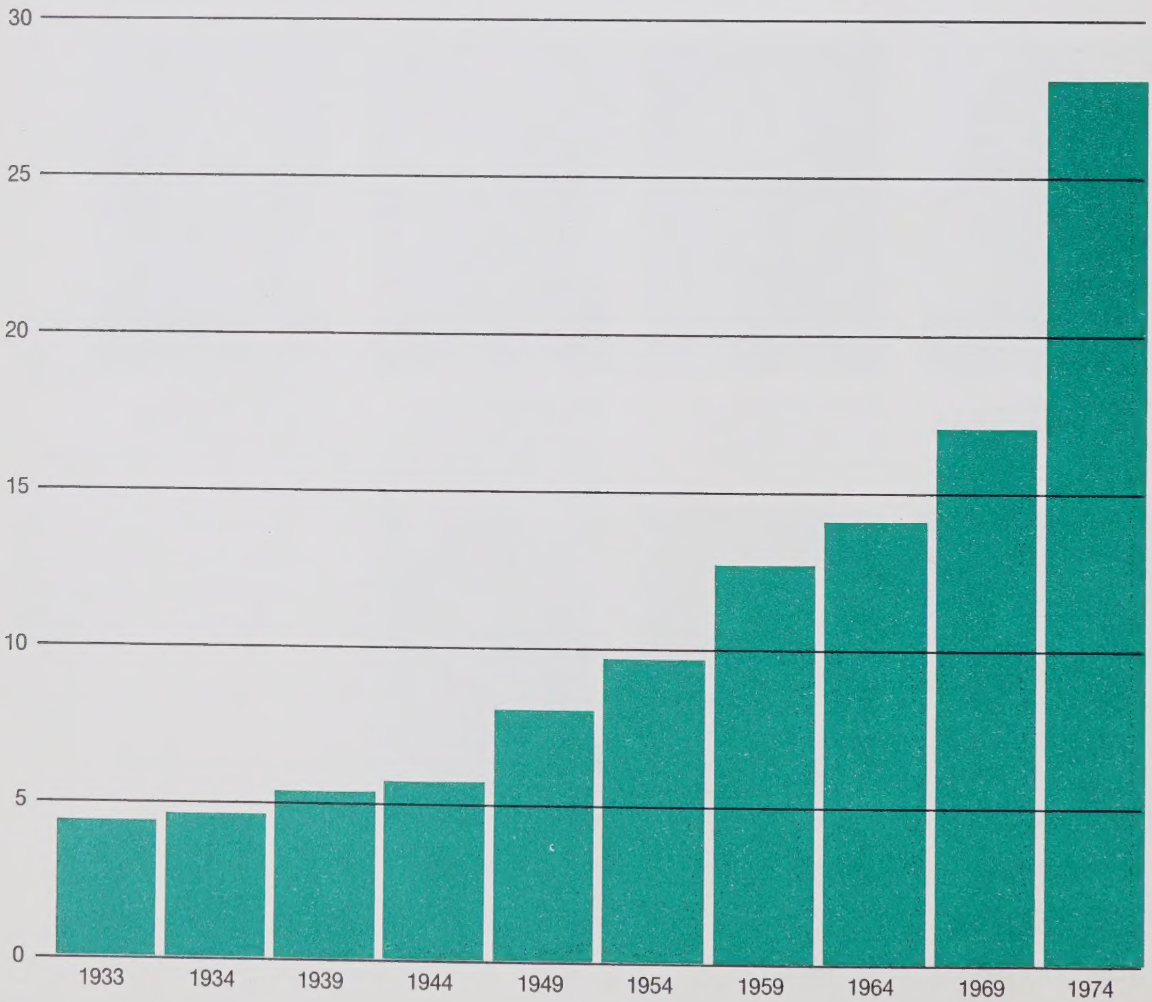
Lucien G. Rolland,
President, Rolland Paper Company Limited

Ian D. Sinclair,
Chairman and Chief Executive Officer, Canadian Pacific Limited

Dividends

Dividends paid in 1974 totalled a record high 28 cents per share. Details of the makeup and Canadian tax status of this 28 cents are given on page 23. The chart below shows the substantial growth in dividends paid by the Fund since its inception. At the end of 1974 CIF had paid 167 consecutive quarterly cash dividends totalling more than $135 million.

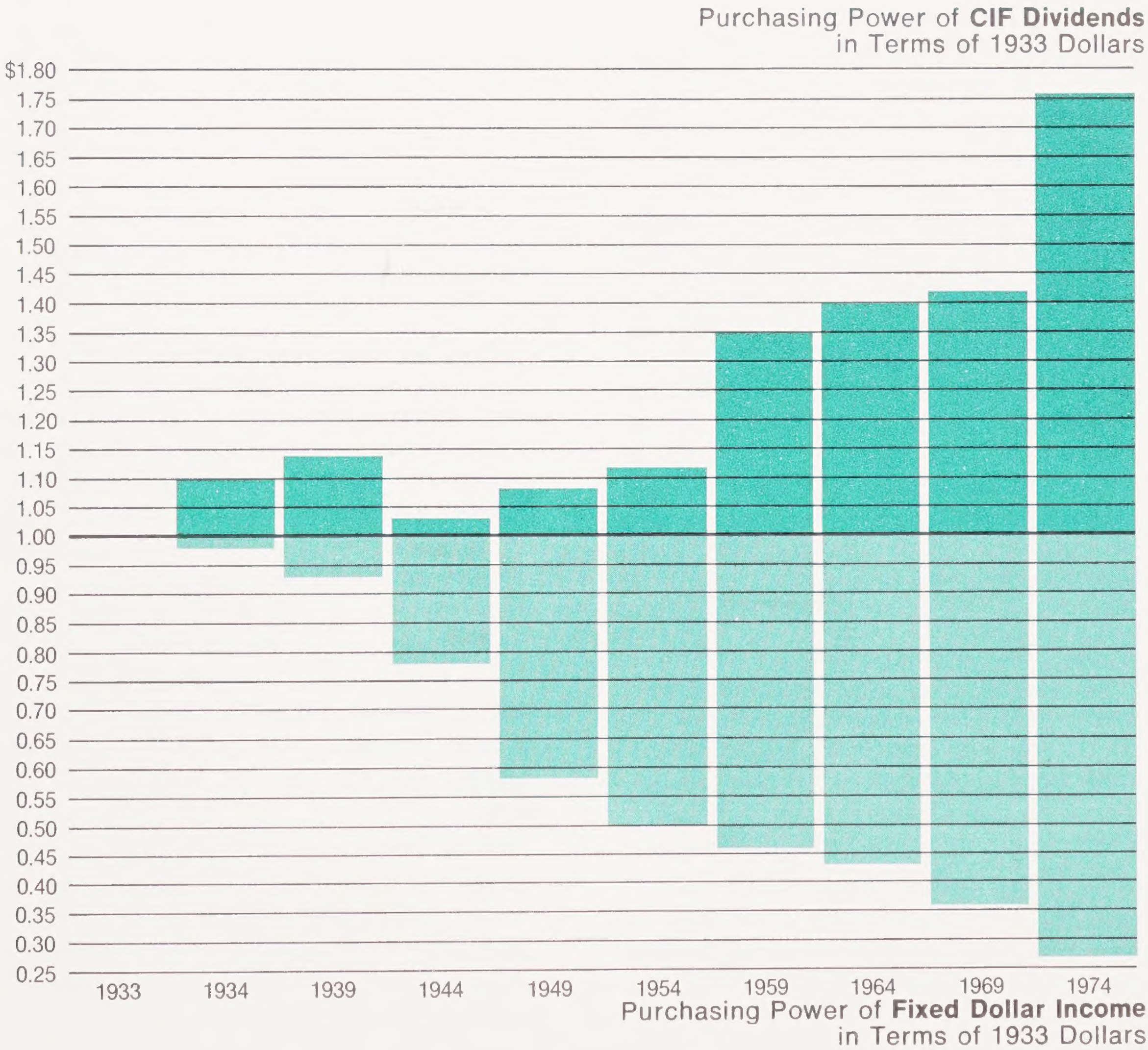
Dividends
in cents per share



Protection Against Rising Prices

Throughout this century the cost of living has risen; a dollar buys fewer loaves of bread than it did ten years ago. In the past, the market values of carefully selected common stocks have usually risen more than the cost of living, and so have their dividends.

Though inflation has reduced the purchasing power of money, CIF shareholders had protection against rising prices over the Fund's forty-two year history. CIF dividends in terms of 1933 dollars (upper part of the chart) are compared to the continuous loss in purchasing power of a fixed dollar income over the period (lower part of the chart).



1974 in Review

During the past year Canadian pre-tax corporate profits grew at a rate easily surpassing anything witnessed in recent times. The stock markets declined at an equally record breaking rate. Either the markets bear little resemblance to reality, or they are in fact mute but effective soothsayers.

The predictive value of Canadian stock market indices declines from their October 1973 highs appears to be unfolding as the New Year begins. The Gross National Product stopped rising in 1974, the balance of payments trade account surplus of recent years is melting and layoffs have hit certain resource and manufacturing industries, although by no means as seriously as in the U.S. or Europe.

In part the poor market performance in relation to sharply higher profits may have been a recognition that 1974 was so good that it borrowed profits from 1975, that the growth rate simply could not be maintained. Indeed, with many industries in Canada operating at full capacity incremental growth was impossible. Because of sharply inflating costs many corporations were unwilling to commit funds to new plant and equipment unless their product prices rose even further so as to assure a satisfactory return on their risk capital. Thus a kind of stalemate arose in 1974 where profit growth could only be insured by price increases. This route was largely preempted by OPEC oil producers who have demanded and are receiving a much larger slice of the economic pie, which in turn leaves less manoeuvreability to increase prices of other domestic products.

Yet wages are climbing far more rapidly than productivity, with even the elected representatives throwing in the towel and opting for their own personal short term security. In the circumstances it seems evident that those companies which are now experiencing a cyclical downturn must either face a profit squeeze or layoff employees, or both.

As shareholders of CIF you will be interested in knowing it was your managers' policy during the last year to dispose of many cyclical stocks. Those which have been retained or added to the portfolio are politically sensitive and susceptible to import protection or have dividend yields generally in excess of returns available on fixed income securities. These companies have also amassed very substantial cash reserves from recent profits so that their dividend paying capability should not be impaired.

We in Canada also experienced in 1974 an extra overlay of uncertainty watching the elected representatives in a monumental battle to seize resource income one from the other. Fortunately in November Alberta established the Provincial Exploration Policy which in this case helped to remove some of the resource income from government and give it back to the producing people. The incentives so created will greatly assist producers in quantifying risks in oil exploration.

Those who feared the economic and political uncertainties last year had a ready made alternative in very high yielding fixed income instruments. While the high yields did not keep pace with inflation, they at least

came close. The highly successful Canada Savings Bonds campaign may have been the last phase of this current public interest in short term securities, since rates are on the way down.

As a transitional phase from purely fixed income to purely capital gain, the dividend appears to have come back into its own. To quote the Financial Post of December 21, 1974 "Holders of dividend paying stocks must be the only relatively contented people in the market today".

Certainly in the case of CIF, increased cash dividends plus a capital gains dividend provided shareholders with an after-tax yield difficult to better right now.

Outlook

The economy and the stock market diverged in 1974, and may be expected to do so again this year, in reverse order.

In last year's annual report your managers were calling for a 3% real growth in the GNP and price rises in excess of 7%. The real growth figure should be not too far off the mark and a similar rate of real growth might just be achieved again in 1975, provided resource exploration can be maintained. Otherwise the real rate of growth will be somewhat under 3%.

Our predictions of price increases were optimistic. Food and shelter prices, accounting for 42% weighting of the consumer price index, just kept soaring. During the last half of the year housing prices began to reflect declining demand and even certain foods, such as beef and poultry, began declining at year end at least at the producer level. Commodity price indices have generally remained high although certain individual commodities have dropped, as for example soybeans, wheat, cotton, corn and most metals. There is no law to insure higher commodity prices will automatically flow through to the consumer. Indeed the unusual rash of pre-Christmas sales in Canadian department stores seems to indicate a growing consumer resistance which will do much to force prices down at least in durable and non-durable consumer goods. In 1975 the consumer price index should increase at a slower pace than in 1974. Certainly the effects of rising components of the index on individuals will come to be less disruptive . . . what is the difference in the consumer comfort

level if housing or service asking prices rise but the consumer refuses to come to the market place? This could be the first phase of the price turn, followed by a decline in prices to suit a sober buyer's mood.

One of the principal domestic economic policy concerns of the government since the turn of the decade has been to create employment for the extraordinarily large number of young Canadians entering the labour force. The number of employed has risen by 17.4%, or a rise somewhat in excess of the growth of the labour force, from 1970 to 1974. Thus the difficult employment objectives have been met with considerable success not, one might add, without a substantial increase in civil service personnel.

The most serious developing problem facing Canada is not likely to be rights of ownership of resources which is susceptible to internal solutions found amongst Canadians themselves, but might well be how to maintain a balance of payments equilibrium.

The Auto Pact turned our trade deficit to a surplus in the mid-sixties to which has been added huge commodity export surpluses since 1971, following revaluation of the dollar, which have more than compensated for increasing dividend outflow to foreign parent corporations. More important, our strong trade account surplus precluded the need for compensating forms of long term capital inflow as in earlier years.

The present auto trade with the U.S. has shifted sharply into a deficit for Canada and Canada's export trade in many non-food commodities will be much lower in 1975. The thin trade surplus recorded during most of 1974 appeared to turn into a deficit position in the final quarter which should continue to grow in 1975. This should produce downward pressure on the Canadian dollar. Last year that would have resulted in the need to import foreign goods at higher prices, fueling inflation. This year it could result in increased consumption of now available domestic goods, with somewhat positive results on domestic employment and production.

Should the trade deficit become substantial and continue for some time, this would suggest a requirement for compensating inflows of foreign capital. The need to develop an understandable and rational policy regarding foreign investment becomes clearer in these circumstances.

In 1975 those Canadian companies whose markets will continue to grow such as those which provide essential goods and services should continue to produce increases in earnings and dividends. As the year progresses such companies should be distinguished from less fortunate cyclicals in terms of price to earnings ratios. In the circumstances it should be possible to witness selected rising stock prices in the presence of declining economic trends and interest rates.

Shareholder Services Designed to Meet Your Investment Objectives

Over the years mutual funds have developed many and varied services for their shareholders. CIF, as Canada's original mutual fund, has been among the leaders in this respect. One or more of the CIF services outlined below are being utilized by a substantial number of shareholders with estate planning or other definite objectives in mind.

CIF Growth Plan
This Plan is designed for anyone who wishes to make regular periodic contributions in order to build up his investment in CIF and to reinvest his dividends in new CIF shares. There are no penalties involved if the shareholder does not meet his proposed schedule of contributions.

CIF Retirement Savings Plan
Those who wish to take advantage of the provisions of the Income Tax Act for building retirement savings in which currently tax-free dividends are reinvested, can use the CIF Retirement Savings Plan. It allows individuals in Canada to utilize important current tax savings to provide retirement income.

CIF Systematic Withdrawal Plan
This Plan is designed for the investor who wishes to make a lump sum purchase of shares and later withdraw fixed amounts at monthly or quarterly intervals. The amounts withdrawn are derived from dividend income to the extent this source is sufficient; where it is not enough, some shares are sold to make up the difference.

Deferred Profit Sharing Plan
This recently developed Plan, utilizes the provisions of Section 147 of the Income Tax Act. This Section permits companies incorporated in Canada to make contributions to this Trusteed Plan, on a voluntary basis. Yearly contributions of up to $2,500 per employee are considered a corporate expense for tax purposes and are not added to the individual employee's income. Individual employees may still make contributions of up to $4,000 annually to their personal Retirement Savings Plan resulting in possible annual tax-sheltered savings of $6,500 per individual.

Letter of Intent
This permits an investor to make a series of purchases of CIF shares over a 13 month period, frequently permitting the investor to take advantage of a reduced sales charge based on the aggregate dollar amount of purchases during the period.

Full details of these Plans are available from any investment dealer in Canada, without obligation.

Canadian Investment Fund, Ltd. (Incorporated under Canada Corporations Act)

Statement of Net Assets — December 31, 1974

Assets	**1974**	**1973**
Investments at market value (average cost — 1974 — $93,837,843; 1973 — $103,033,142)	$106,299,827	$158,463,168
Cash on deposit, demand	12,408,432	15,049,055
Interest accrued and dividends receivable	1,033,666	1,095,555
Due by subscriber to capital stock	23,140	39,395
Prepaid income taxes	36,499	50,320
Total assets	119,801,564	174,697,493
Liabilities		
Payable in respect of securities purchased	459,876	1,055,476
Payable for special shares of capital stock redeemed or purchased for cancellation	68,160	58,359
Management and directors' compensation payable	201,706	170,908
Accrued expenses and sundry accounts payable	14,064	16,938
United States withholding tax	668	597
Total liabilities	744,474	1,302,278
Net assets at market value	$119,057,090	$173,395,215
Net asset value per share	$3.72	$4.98
Shareholders' Equity		
Capital stock:		
Special shares of 33⅓ cents each (redeemable on demand by the holders at liquidating value as provided in the Letters Patent of the Company) —		
Authorized — 105,000,000 shares of which 49,993,565 (1973 — 44,991,063) have been redeemed or purchased for cancellation from inception		
Outstanding — 31,948,679 shares (1973 — 34,800,561 shares)	$ 10,649,560	$ 11,600,187
Ordinary shares — Authorized and outstanding — 3,000 shares of 33⅓ cents each	1,000	1,000
Total capital stock	10,650,560	11,601,187
Surplus, per statements annexed:		
Paid-in surplus	30,802,238	41,327,666
Earned surplus	65,142,308	65,036,336
Total surplus	95,944,546	106,364,002
Unrealized appreciation of investments	12,461,984	55,430,026
Shareholders' equity as per net assets above	$119,057,090	$173,395,215

Approved on behalf of the Board:
G. ARNOLD HART, *Director*
ALAN CHIPPINDALE, *Director*

Canadian Investment Fund, Ltd.

Statement of Income Account for the Year Ended December 31, 1974

Income	**1974**	**1973**
Cash dividends	$6,106,263	$5,950,028
Bond interest	96,907	27,189
Interest on cash deposits	1,397,519	1,107,155
Stock dividends and proceeds from sales of rights	5,000	5,282
	7,605,689	7,089,654
Expenses		
Management	887,031	609,747
Transfer, dividend paying agent's and custodian's fees	114,469	90,523
General expenses and auditors' fees	94,500	84,295
Taxes, other than income taxes	3,789	3,805
Legal fees and expenses	10,911	9,812
Directors' compensation	77,000	85,500
	1,187,700	883,682
Net income before providing for the items shown below	6,417,989	6,205,972
United States withholding and Canadian income taxes paid and provided for	91,234	100,669
Net income, exclusive of profit or loss from sales of securities	$6,326,755	$6,105,303
Net income per share based on the average number of shares outstanding during the year	18¢	17¢

Statement of Paid-In Surplus Account for the Year Ended December 31, 1974

	1974	1973
Balance at beginning of year	$41,327,666	$45,539,982
Less: Included in beginning balance of distribution account, per statement annexed	8,927	11,879
	41,318,739	45,528,103
Proceeds from special shares subscribed for during year, not including portion of subscription price credited to distribution account	9,787,428	10,272,428
Less: Par value thereof	716,873	660,645
	9,070,555	9,611,783
	50,389,294	55,139,886
Deduct: Consideration paid on redemption or purchase for cancellation of special shares during year, not including amount charged to distribution account	21,262,292	14,774,850
Less: Par value thereof	1,667,501	953,703
	19,594,791	13,821,147
	30,794,503	41,318,739
Portion of subscription price included in balance of distribution account	7,735	8,927
Balance of paid-in surplus at end of year	$30,802,238	$41,327,666

Canadian Investment Fund, Ltd.

Statement of Earned Surplus Account for the Year Ended December 31, 1974

	1974	1973
Realized profits from sales of securities:		
Balance at beginning of year	$62,782,430	$56,179,758
Realized profits during year (Note 3)	3,488,760	8,533,595
	66,271,190	64,713,353
Deduct		
"Capital gains dividend"		
paid in cash or stock —		
Special shares	3,130,764	—
Ordinary shares	270	—
"1971 capital surplus dividend"		
paid in cash —		
Special shares	—	1,930,758
Ordinary shares	—	165
	3,131,034	1,930,923
Balance at end of year	63,140,156	62,782,430
Portion of balance of distribution account at end of year, per statement annexed	2,002,152	2,253,906
Balance of earned surplus at end of year	$65,142,308	$65,036,336

Statement of Distribution Account for the Year Ended December 31, 1974

	1974	1973
Balance of distribution account at beginning of year	$2,262,833	$1,679,604
Balance of income account, per statement annexed	6,326,755	6,105,303
Received on subscriptions to capital stock to equalize the per share amount available for distribution on the then outstanding shares (dividends declared are first chargeable against this amount) as provided by resolutions of the Board of Directors	109,547	79,312
	8,699,135	7,864,219
Deduct		
Dividends paid —		
Special shares	6,360,297	5,489,278
Ordinary shares	570	465
Amounts included in prices of special shares redeemed or purchased for cancellation, equal to the per share portion of income and distribution accounts	328,381	111,643
	6,689,248	5,601,386
Balance of distribution account at end of year	2,009,887	2,262,833
Included in paid-in surplus, per statement annexed	7,735	8,927
Included in earned surplus, per statement annexed	2,002,152	2,253,906
	$2,009,887	$2,262,833

Canadian Investment Fund, Ltd.

Statement of Changes in Net Assets for the Year Ended December 31, 1974

	1974	1973
Net assets at beginning of year	$173,395,215	$192,114,269
Add (deduct) changes during year:		
Net investment income	6,326,755	6,105,303
Realized profits from sales of securities (Note 3)	3,488,760	8,533,595
Increase (decrease) in unrealized appreciation of investments	(42,968,042)	(21,402,533)
Proceeds from subscriptions to special shares	8,309,840	10,351,740
Consideration attached to shares issued as dividend	1,587,136	—
Consideration paid on redemption or purchase for cancellation of special shares	(21,590,673)	(14,886,493)
Dividends declared on capital stock —		
From net investment income	(6,360,867)	(5,489,743)
From realized profits from sales of securities	(3,131,034)	(1,930,923)
	(54,338,125)	(18,719,054)
Net assets at end of year	$119,057,090	$173,395,215

	Per share	
Net asset value at end of year	$3.72	$4.98
Net asset value at beginning of year	$4.98	$5.38
Distribution out of net investment income	19¢	15½¢
Distribution out of realized profits from sales of securities —		
"Capital gains dividend"	9¢	—
"1971 capital surplus dividend"	—	5½¢

Investments
At December 31, 1974

Common Stocks	Number of Shares	Market Value†	Proportion of a $10,000 Investment*
Automotive			
Ford Motor Company of Canada, Limited	10,500	$ 574,875	$ 48
General Motors Corporation	80,000	2,434,170	204
		3,009,045	252
Bank			
Bank of Montreal	375,000	4,875,000	410
The Bank of Nova Scotia	130,000	4,517,500	379
Banque Canadienne Nationale	85,000	1,147,500	96
Canadian Imperial Bank of Commerce	155,000	3,371,250	283
The Royal Bank of Canada	200,000	5,200,000	437
The Toronto-Dominion Bank	30,000	982,500	83
		20,093,750	1,688
Non-Bank Financial			
IAC Limited	455,000	7,735,000	650
Building			
Canada Cement Lafarge Ltd.	100,000	887,500	75
Business Equipment and Supplies			
International Business Machines Corporation	10,000	1,662,360	140
Moore Corporation Limited	328,000	13,366,000	1,123
		15,028,360	1,263
Food and Beverage			
Burns Foods Limited	85,000	637,500	54
Canada Packers Limited "C"	165,000	2,866,875	241
Distillers Corporation — Seagrams Limited	25,000	793,750	67
Hiram Walker — Gooderham & Worts Limited "A"	250,000	8,812,500	740
		13,110,625	1,102
Heavy Industry			
Dominion Foundries and Steel, Limited	145,000	3,135,625	263
The Steel Company of Canada, Limited "A"	100,000	2,600,000	218
		5,735,625	481
Mining			
Cominco Ltd.	60,000	1,470,000	124
Placer Development Limited	100,000	1,462,500	123
		2,932,500	247
Paper and Newsprint			
Crown Zellerbach Corporation	10,000	236,243	20
MacMillan Bloedel Limited	100,000	2,175,000	183
		2,411,243	203

Investments
At December 31, 1974

Common Stocks (Continued)	Number of Shares	Market Value†	Proportion of a $10,000 Investment*
Petroleum			
BP Canada Limited	50,000	$ 425,000	$ 36
Exxon Corporation	20,000	1,278,929	107
Home Oil Company Limited "A"	65,000	1,072,500	90
Hudson's Bay Oil and Gas Company Limited	85,000	1,445,000	121
Imperial Oil Limited "A"	155,000	3,410,000	286
Interprovincial Pipe Line Limited	240,000	2,790,000	234
Shell Canada Limited "A"	165,000	2,041,875	172
		12,463,304	1,046
Public Utility			
The Alberta Gas Trunk Line Company Limited "A"	25,000	262,500	22
British Columbia Telephone Company	55,000	2,585,000	217
Inland Natural Gas Co. Ltd.	30,000	217,500	18
TransCanada PipeLines Limited	150,000	1,237,500	104
Union Gas Limited	100,000	750,000	63
		5,052,500	424
Retail Trade			
Dominion Stores Limited	100,000	1,575,000	132
Hudson's Bay Company	155,000	1,801,875	151
Woodward Stores Limited "A"	120,000	2,280,000	192
		5,656,875	475
Textile			
Dominion Textile Limited	200,000	1,350,000	113
Miscellaneous			
Brascan Limited "A"	65,000	658,125	55
Canadian Pacific Limited	235,000	3,201,875	269
Imasco Limited "A"	70,000	1,610,000	135
		5,470,000	459
Total Common Stocks		100,936,327	8,478
Preferred Stocks			
British Columbia Telephone Company, 7.04%	28,000	490,000	41
The Consumers' Gas Company, 9% Conv.	20,000	440,000	37
John Labatt Limited, Series A, $1.00 Conv.	75,000	1,246,875	105
TransCanada PipeLines Limited, $2.65 Conv.	60,000	1,800,000	151
Total Preferred Stocks		3,976,875	334
Bonds	**Principal Amount**		
Government of Canada, 5½% October 1, 1975	$ 250,000	247,625	21
Hudson's Bay Company, 6% Exchangeable Debentures	1,250,000	837,500	70
Union Gas Limited, 11% Debentures	300,000	301,500	25
Total Bonds		1,386,625	116
Total Investments		106,299,827	8,928
Cash, Etc., Net		12,757,263	1,072
Total Net Assets		$119,057,090	$10,000

†Investments valued at market quotations. Market values of United States Securities are expressed in Canadian Funds at the rate of exchange prevailing on December 31, 1974, 1.05% discount on U.S. Funds.

*Dollar amount for each security represented by a $10,000 investment in the Fund at asset value on that date.

Statement of Changes in Investments
For the Year Ended December 31, 1974

Increases	Net Increase	New Total
Common Stocks	Shares	Shares
The Alberta Gas Trunk Line Company Limited "A"	25,000	25,000
BP Canada Limited	50,000	50,000
Brascan Limited "A"	15,000	65,000
British Columbia Telephone Company	15,000	55,000
Canadian Imperial Bank of Commerce	15,000	155,000
Cominco Ltd.	25,000	60,000
Distillers Corporation — Seagrams Limited	25,000	25,000
Dominion Foundries and Steel, Limited	10,000	145,000
Dominion Textile Limited	70,000	200,000
Ford Motor Company of Canada, Limited	10,500	10,500
Home Oil Company Limited "A"	5,000	65,000
Hudson's Bay Oil and Gas Company Limited	4,000	85,000
IAC Limited	5,000	455,000
Imasco Limited "A"	3,000	70,000
Imperial Oil Limited "A"	5,000	155,000
Inland Natural Gas Co. Ltd.	30,000	30,000
International Business Machines Corporation	3,750	10,000
Interprovincial Pipe Line Limited	10,000	240,000
Shell Canada Limited "A"	15,000	165,000
TransCanada PipeLines Limited (1)	30,000	150,000
Preferred Stocks		
The Consumers' Gas Company, 9% Conv.	20,000	20,000
John Labatt Limited, Series A, $1.00 Conv.	3,500	75,000
Bonds	Principal Amount	
Government of Canada, 5½% October 1, 1975	$250,000	$ 250,000
Hudson's Bay Company, 6% Exchangeable Debentures	250,000	1,250,000
Union Gas Limited, 11% Debentures	300,000	300,000

Decreases	Net Decrease	New Total
Common Stocks	Shares	Shares
Abitibi Paper Company Ltd.	275,000	—
Bank of Montreal	35,000	375,000
Canadian Industries Limited	130,000	—
The Consumers' Gas Company	85,000	—
Dominion Stores Limited	5,000	100,000
Exxon Corporation	10,000	20,000
The International Nickel Company of Canada, Limited	128,000	—
Moore Corporation Limited	20,000	328,000
Noranda Mines Limited "A"	42,000	—
Union Carbide Canada Limited	30,000	—
Union Gas Limited	100,000	100,000
Preferred Stocks		
Bell Canada "A" $3.20, Conv.	55,000	—

(1) Split 3 for 1, plus shares purchased less shares sold.

Notes to the Financial Statements December 31, 1974

Note 1: The market value of investments is based on the published last sales prices on national securities exchanges at December 31, 1974, or, in the absence of recorded sales, at the average of readily available closing bid and asked prices on such exchanges or over-the-counter.

Note 2: The number of special shares issued and redeemed or purchased for cancellation is as follows:

	1974	1973
Outstanding at beginning of year	34,800,561	35,679,734
Increase (decrease) during the year		
Issued —		
For cash	1,822,112	1,981,936
As dividend	328.508	—
Redeemed or purchased for cancellation	(5,002,502)	(2,861,109)
Outstanding at end of year	31,948,679	34,800,561

Note 3: A summary of the realized profits from sales of securities is as follows:

	1974	1973
Proceeds from sales of securities	$ 23,968,018	$ 31,905,340
Investments at average cost at beginning of year	103,033,142	94,539.364
Cost of securities purchased	11,283,959	31,865,523
	114,317,101	126,404,887
Investments at average cost at end of year	93,837,843	103,033,142
Cost of securities sold	20,479,258	23,371,745
Realized profits from sales of securities	$ 3,488,760	$ 8,533,595

Note 4: Income taxes payable on realized net taxable capital gains for the year ended December 31, 1974 amount to $146,000 and are fully recoverable as a result of the redemption of Company shares and the proposed declaration on January 14, 1975 of a capital gains dividend payable on February 24, 1975. Accordingly capital gains taxes payable and their expected recovery have been offset in the accompanying financial statements with no effect on net assets at December 31, 1974 or net income for the year then ended.

Note 5: There are nine directors (1973 - ten) and seven officers (1973 - six) of the Company. Two of the officers are directors. The eight directors (1973 - nine) who are remunerated received $77,000 (1973 - $85,500). None of the officers received remuneration in their capacity as officers of the Company.

Auditors' Report

Price Waterhouse & Co.

chartered accountants

5 Place Ville Marie Montréal Qué. H3B 2G4 (514) 866-9701 Telex 05-268714

January 9, 1975

To the Shareholders of
Canadian Investment Fund, Ltd.:

We have examined the statements of net assets and of investments of Canadian Investment Fund, Ltd., as at December 31, 1974 and the statements of income, paid-in surplus, earned surplus and distribution account for the year then ended. We have also examined the statements of changes in net assets and in investments. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1974 and the results of its operations and the changes in net assets and in investments for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

Canadian Federal Income Tax Information

The Company has already sent to each shareholder a Federal income tax form T-5 (NR-4 in the case of non-resident shareholders) which sets forth the total amount of taxable dividends.

The table below shows the treatment for Canadian Federal income tax purposes of the per share dividends received from the Company during the calendar year 1974.

		Taxable as	
Dividend Payment Date	**Total**	**Canadian Dividend Income**	**Canadian Capital Gains**
February 1	3¢	3¢	
February 18	9		9¢
May 1	3	3	
August 1	4	4	
November 1	9	9	
	28¢	19¢	9¢

Capital Gains Dividend
The dividend of 9¢ per share paid on February 18 was a capital gains dividend payable in stock or in cash at the option of shareholders. Regardless of whether this February 18 dividend was paid in shares or in cash, Canadian taxpayers should include only half of the amount received in their income as a taxable capital gain. Shareholders who elected to receive this capital gains dividend in shares of the Company should use $4.831,342 as the basis of cost for each share received.

Other Taxable Dividends
The other dividends paid in 1974 totalling 19¢ per share represent income from ordinary dividends as shown in the table above and these are to be treated as Dividends from Taxable Canadian Corporations. The "actual amount" of these dividends is clearly shown on the Canadian Federal income tax form T-5 as sent to shareholders resident in Canada. The next amount shown is the "taxable amount" which is the actual amount received "grossed up" by 33⅓%. This is the amount that should be reported by Canadian taxpayers as income from this Company. Finally, the Federal tax credit is shown and this amount can be used as a credit against Canadian income tax otherwise payable.

Non-residents continue to receive Federal tax form NR-4 which shows gross amount of dividends and 10% non-resident tax withheld. The Capital Gains dividend is not shown on the NR-4 as no non-resident tax was withheld from that dividend which is not necessarily to be considered income, depending on the country in which the non-resident is filing his tax return.

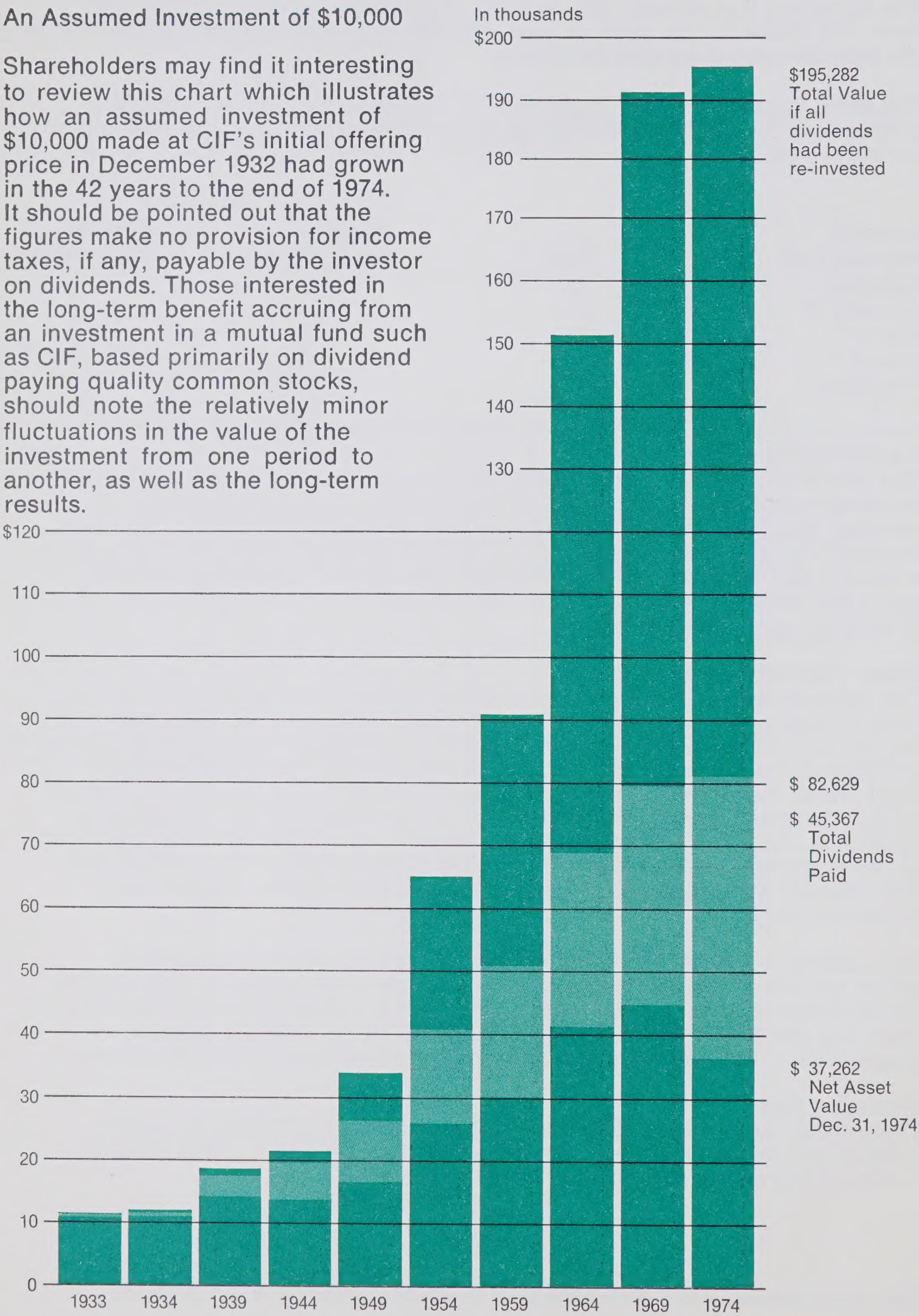
Valuation Day
The official value of your Company's shares for Valuation Day purposes is $4.70 per share which was the net asset value per share at the close of business December 31, 1971.

We Recommend That Shareholders Preserve This Notice Carefully.

Long-Time Record

An Assumed Investment of $10,000

Shareholders may find it interesting to review this chart which illustrates how an assumed investment of $10,000 made at CIF's initial offering price in December 1932 had grown in the 42 years to the end of 1974. It should be pointed out that the figures make no provision for income taxes, if any, payable by the investor on dividends. Those interested in the long-term benefit accruing from an investment in a mutual fund such as CIF, based primarily on dividend paying quality common stocks, should note the relatively minor fluctuations in the value of the investment from one period to another, as well as the long-term results.



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Canada

"Upon the whole surface
of the globe,
there is no more spacious
and splendid domain
open to the activity
and genius of free men."

—Sir Winston Churchill